January 30, 1984

DRAFT
FOR DISCUSSION PURPOSES
ONLY.

Mr. Stewart Brand
Mr. Paul Hawken
Ms. Andrea Sharp
Point Foundation
Box 428
Sausalito, California 94966

Dear Friends:

We are writing to document our general findings and recommendations as a result of the financial management overview which we recently performed. Our findings and recommendations were made in the areas of internal and external reporting policies, internal control and accounting systems matters, tax and other issues, and cash management considerations, and are based on a reading of the Foundation's historical financial statements and tax returns, interviews with you and various Foundation employees, and a walkthrough of your accounting systems and records. This report is provided solely for your information and is presented as a basis for further discussion and to assist you in areas for in-depth follow-up. To focus our upcoming discussion and follow-up on the issues described, we have provided space in the attached report to document our approach to each item.

We appreciate the helpful cooperation provided by you and your employees in the preparation of our recommendations. We will be available at your request to assist in the implementation of any of these items, or to provide whatever resources you request in effecting these changes. This agenda should not be construed as all inclusive. Additional items may come to our attention during the preparation of the report on your annual financial statements, and if so, we will bring those items to your attention at a later date.

Very truly yours,

Jerome S. Engel

Enclosures

cc: James Rottman
Ward Pynn
Susan Dague

① improve systems
② tax returns
③ review/audit
8.5/10

max dec 05
#12 00 – 15 05
$2800 ?
1500 ?

Book Tax diff.?

POINT FOUNDATION
FINANCIAL MANAGEMENT OVERVIEW

January 4, 1984

Finding	Recommendation	Agreed Action	Responsible	Timing
INTERNAL AND EXTERNAL REPORTING POLICIES				
1. Fixed assets - The foundation does not maintain a fixed asset ledger. Some records of fixed assets have been maintained in the office of the prior accountant. Such a fixed asset ledger provides details to support asset balances, depreciation, investment tax credits and other financial information reported by the Foundation on its tax returns and in its financial statements. In addition, depreciation has been recorded on the books and records of the Foundation for the eight months ended December 31, 1983, but cost information for the computation of depreciation was maintained in the office of the prior accountant.	The Foundation should consider preparing and maintaining a fixed asset subsidiary ledger. Spread sheet computerized systems would be one way of scheduling these assets. This schedule should contain the asset cost (or fair market value in the case of donated assets), estimated useful life, depreciation methods utilized for both book and tax purposes, and other related information for fixed assets owned and used by the Foundation, including any assets in use off the premises. Such a schedule will provide accurate and current documentation of all assets owned by the Foundation, and, if properly maintained, will ease the year-end work required in the preparation of annual financial statements by your staff. As soon as the fixed asset ledger has been prepared and agreed to the general ledger balance for fixed assets and accumulated depreciation, the Foundation	yes	w/ support	

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POINT FOUNDATION
FINANCIAL MANAGEMENT OVERVIEW

January 4, 1984

Finding	Recommendation	Agreed Action	Responsible	Timing
INTERNAL AND EXTERNAL REPORTING POLICIES				
1. Fixed assets - (continued)	should compute and journalize fixed asset depreciation on a monthly basis, in order to match depreciation expense with the appropriate months and to avoid large adjusting journal entries at year end.			
2. Inventories - The Foundation has on hand and in storage overstock of certain back issues of Co Evolution Quarterly, a portion of the value of which has been written off in the statements of activity in prior periods. Such valuation represents the estimated net realizable value of these items. In addition, the Foundation owns certain inventories not stored on the local premises. These include copies of the Next Whole Earth Catalogue held by Random House and certain map inventories held by a local wholesale distributor. Since the foundation does not control access to these inventories, there exists uncertainity as to the quantities on hand at any point in time.	Inventories against which an allowance has been set up should be segregated and appropriately labeled or destroyed as useless. The appropriate inventory level to meet demand in the years to come should be determined by management, and only this level should be maintained by the Foundation, for the current and back issues. The Foundation should consider periodic review and accounting for inventories held by others. Such review can include verification by independent auditors, as well as monthly or quarterly reporting to the Foundation by one of the holders of the quantities on hand.	DRAFT FOR DISCUSSION PURPOSES ONLY Ok L. Paul	 Mench	

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January 4, 1984

	Finding	Recommendation	Agreed Action	Responsible	Timing
INTERNAL AND EXTERNAL REPORTING POLICIES					
2.	Inventories - (continued)	Such supplements to the accounting for inventory items will improve the accuracy of valuations of items held for sale by the Foundation.			
3.	Accounts receivable - The general ledger balance for accounts receivable represents the total of the detailed listing of distributor and mailing list accounts deemed collectible by the Foundation (see Internal Control and Accounting Systems section for further comments). The Foundation does not record an allowance for doubtful accounts associated with these receivables.	Since some of the items listed in the accounts receivable detail may eventually prove uncollectible, even though the particular accounts are not currently identifiable, the Foundation should consider setting up an allowance against the balance in the accounts receivable account by charging each period with a bad debt expense equal to the estimated percentage of uncollectible sales made during that period. Such estimated percentage may be obtained through a periodic review of collections on account.			

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January 4, 1984

Finding	Recommendation	Agreed Action	Responsible	Timing
INTERNAL AND EXTERNAL REPORTING POLICIES				
4. Investments - The Foundation reports as an investment the cost basis of privately traded stock received in extinguishment of the debt of the stock issuer. Subsequent to such receipt of stock, the decrease in the fair market value of this stock has been recorded as a reserve account.	In accordance with generally accepted accounting principles, an impairment in the market value of marketable securities that is not deemed temporary should be accounted for as a reduction in the carrying value of the investment, i.e., the cost basis should be recorded net of any estimated permanent decline in value. Such impairment should be reviewed and/or adjusted on a regular basis.	Andrea OK		
5. Accounts payable - The current financial statements of the Foundation report no outstanding accounts payable accruals. Since such unpaid invoices existed at period end, other accounts such as assets or expenses may be understated by reporting only cash disbursements and not accruing accounts payable.	At the end of each period, the Foundation should prepare a detailed listing of outstanding invoices and/or purchase orders for goods and services received prior to the end of the period. This listing should be used as the source of the journal entry for the accrual of accounts payable, thereby reporting all these items in the correct period and presenting a more accurate representation of the Foundation's financial position.	Andrea		

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January 4, 1984

	Finding	Recommendation	Agreed Action	Responsible	Timing
INTER[illegible] EXTERNAL REPORTING POLICIES					
5.	Ac[illegible] payable - (continued)	At the beginning of the subsequent period the accrual journal entry may be reversed, allowing the cash basis journals of the Foundation to continue to be used as the principal source documents for recording transactions.			
6.	Accounts payable - Random House - This financial statement account relates to advances against publication of the Next Whole Earth Catalogue. Documentation of sales by Random House, the royalties from which would reduce this balance, are not presented in a timely or accurate manner. Therefore, this liability account may be overstated.	The Foundation should determine a means of accurately stating this liability, either through requesting sales reports by telephone at the end of each quarter or by recording an estimate of the quarter's sales based upon prior quarter's sales or some other reasonable basis. In this way, the outstanding liability and the Foundation's royalty revenues and financial position are more accurately reported.			

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Paul Marcus

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FINANCIAL MANAGEMENT OVERVIEW

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Finding	Recommendation	Agreed Action	Responsible	Timing
INTERNAL AND EXTERNAL REPORTING POLICIES				
7. Contracts payable - The details supporting this general ledger account balance were maintained by the prior accountant. The balance sheet amount represents remaining principal payments due in connection with the purchase of certain fixed assets. Payments on these contracts, however, are charged in full to rental expense accounts, hereby leaving these liability accounts unchanged over the past eight months.	In accordance with generally accepted accounting principles, these balances should report only the remaining principal due on the contract, the balance should more properly be described as "obligations under capital leases," remaining obligations due should be segregated by current and long-term portions and so classified on the balance sheet, and payments on these contracts should reduce principal due and record contract interest expense for each period. Prior to such implementation and/or adjustment in the books and records of the Foundation, the lease agreements should be reviewed, so as to determine whether capital lease treatment is appropriate and whether additional adjustments of capital leased assets accounts are required.			

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INTERNAL AND EXTERNAL REPORTING POLICIES				
8. Doubleday advance - A review of the Doubleday contract indicates that the liability of the Doubleday advance has been understated on the balance sheet of the Foundation. In addition, the Foundation has not recorded the 15% broker commission which Doubleday paid directly to John Brockman Associates, Inc.	The books and records of the Foundation should be adjusted to report the following advances: 650,000 - Royalty advance ($1,300,000 ÷ 2) + 15,000 - Production advance ($30,000 ÷ 2) $665,000 Total advance In order to adjust this account, the Foundation should also record broker commission of the same amount, $97,500 ($650,000 advance x 15% commission rate per contract). In this way, the balance sheet reports the proper amount advanced per contract, and the statement of revenues and expenses will include the appropriate commission charges.			

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INTERNAL AND EXTERNAL REPORTING POLICIES				
9. Financial statement format - The Foundation currently reports certain financial statement balances and financial statements as though it were a commercial business.	In order to demonstrate its recognition of certain accounting principles developed for not-for-profit organizations, the Foundation should consider changing certain account descriptions and financial statement names to comply with specific not-for-profit pronouncements.			
10. Internal management reports - The Foundation's current computerized accounting system is capable of producing separate reports for monitoring monthly activity for each project or enterprise. Allocation of overhead expenses, charge of depreciation expense, and other accounting items which would make these reports more accurate have not yet been implemented, although such enhancements are currently planned. In addition, departmental managers responsible for project or enterprise performance do not have monthly, quarterly, or annual budgets against which they can measure actual performance on a regular basis.	The Foundation should develop budgets for each project and compare such to the actual monthly reports as generated by the general ledger system. This comparison will allow the management group to monitor project progress on a regular basis, in order to identify areas of concern quickly and efficiently. Changes in spending, marketing strategies, timing of pursuit of additional financing, or other critical management decisions may be made easier through this documentation of project expenditures, which should be presented to management in a timely manner.			

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cashflow reports

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INTERNAL CONTROL AND ACCOUNTING SYSTEMS				
1. Segregation of duties - Andrea Sharp, who is responsible for recording and reporting all cash receipts and disbursements, has signature authority on all cash accounts. Although she only signs checks in Stewart's absence, this authority creates a weakness in the cash control system.	As the Foundation continues to grow and additional personnel are hired for the accounting or other administrative departments, the tasks of recording and reporting cash receipts and disbursements should be delegated from Andrea to her subordinate. In this way, Andrea may review the work of other accounting personnel and maintain the controller function of check signing, if such is the Foundation's desire.			
2. Accounts receivable - The general ledger balance for accounts receivable represents the total of the detailed listing of distributor and mailing list accounts. This account balance is adjusted monthly to agree to detail, the difference being posted to a receivables change account in the income and expense statement.	The Foundation should create cash receipts and sales journals the entries from which would be used to update the general ledger balance each month. This ending balance should then be compared to the detailed listing of individual customer balances and any differences reconciled. In this way, management can maintain accurate monthly sales and receipts records, as well as maintaining control over the accounts receivable balance.			

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Finding	Recommendation	Agreed Action	Responsible	Timing
INTERNAL CONTROL AND ACCOUNTING SYSTEMS				
3. Cash deposits - Deposits to the checking account of checks and cash received are made in person on a weekly basis. Undeposited items are retained in a cash drawer until the deposit is made.	Checks received should be restrictively endorsed upon receipt and deposited by mail daily, after duplicate a deposit slip has been prepared. Daily deposit of receipts maximizes cash flow and minimizes risk of loss of undeposited items.			

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TAX AND OTHER ISSUES				
1. Public charity status - The Foundation does not presently qualify for public charity classification under Internal Revenue Code (IRC) 509(a)-(1) and 170 (b)(1)(A)(vi), because it meets neither the one-third-public-support test nor the safe-harbor 10% facts and circumstances test. If the IRS audited the Foundation today, it would be classified under IRC 509 (a)(2). If the Doubleday & Co. receipts are considered royalty income, however, then the Organization may lose its 509 (a)(2) classification because it exceeded the one-third outside income test, in which case it would be classified as a private foundation.				
2. Insurance - The Foundation is currently entering into a project to publish reviews of computer software available in the commercial marketplace. Such activity exposes the Foundation to potential litigation.	The Foundation should review its insurance coverage to determine whether current limits are adequate. Coverage is available for libel and slander suits, as well as errors and omissions, a professional liability coverage. In addition, the adequacy of coverage of officers and directors should be reviewed and updated on a regular basis.			

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TAX AND OTHER ISSUES				
3. Commercial activities - Publication of the Software Catalogue and the Software Review represent new projects for the Foundation, the active promotion of which may jeopardize the Foundation's tax exempt status. The Internal Revenue Service, on audit, will review the Foundations activities for certain characteristics which it deems "commercial"; the presence of these activities or characteristics would indicate that the organization was not operating exclusively for an exempt purpose. Such characteristics include but are not limited to, the presence of substantial profits, pricing policies clearly maintained to produce profit, competition with commercial publishers, and "adopting a commercial method of operatic	The Foundation should be aware of the extent to which its activities parallel such "commercial" activities, and should be aware of the consequences of revocation of tax-exempt status.			
4. Application for change in accounting period - The Foundation has applied to the Internal Revenue Service for a change in fiscal year end from April 30 to December 31, but has not made a similar request of the California Franchise Tax Board.	In order to have reporting periods consistent for federal and state purposes, the Foundation should apply for a change in reporting period for California by February 15, 1984.	A/ yaction		

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CASH MANAGEMENT				
1. Cash flow reports - Reports of monthly cash flow are prepared for review by management, but comparisons to budgets are not made.	The Foundation should prepare budgets for each project; such budgets could be used in the projection of cash needs and in the measurement of actual performance against those budgets. In this way, management can monthly or biweekly monitor cash requirements and cash excesses available for investment.			

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